



## *Report to the Auburn City Council*

Action Item	5
Agenda Item No.	
City Manager's Approval	

**To:** Honorable Mayor and City Council Members  
**From:** George E. Williams, City Treasurer  
Andy Heath, Administrative Services Director  
**Date:** September 14, 2009  
**Subject:** Quarterly Report of Investments – Quarter Ending June 30, 2009

### *The Issue*

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

### *Recommended Action Requested*

Receive, review and file the "*City of Auburn Quarterly Investment Report*" for the quarter ending June 30, 2009.

### *Background*

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending June 30, 2009 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet its pooled expenditure requirements for the next six months.

AnalysisINVESTMENT SUMMARYCity of Auburn Pooled Investment Accounts:

<i>For the quarter ended:</i>	<u>June 2009</u>	<u>March 2009</u>	<u>June 2008</u>
Portfolio value – end of quarter:	\$10,982,299	\$9,769,931	\$11,904,154
Portfolio effective yield – end of quarter:	1.98%	2.00%	3.539%
Dollar-weighted days to maturity – end of quarter:	460	321	736
Portfolio interest earnings (1) – end of quarter:	\$50,877	\$76,160	\$57,524
Net unrealized gain / (loss) (2) – end of quarter:	\$43,306	\$(35,403)	\$(53,383)

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Auburn Urban Development Authority Bond Proceeds Accounts:

<i>For the quarter ended:</i>	<u>June 2009</u>	<u>March 2009</u>	<u>June 2008</u>
Portfolio value – end of quarter:	\$4,701,907	\$4,621,211	N/A
Portfolio effective yield – end of quarter:	2.41%	3.43%	N/A
Dollar-weighted days to maturity – end of quarter:	321	376	N/A
Portfolio interest earnings (1) – end of quarter:	\$80,696	\$19,078	N/A

(1) Interest earnings on investments distributed to City during reporting quarter.

(2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

**PORTFOLIO / TREND ANALYSIS**

As a means to account for the investment of Auburn Urban Development Authority (AUDA) Bond Proceeds received in October 2008, the Investment Report includes appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated to include appropriate AUDA investment information.

Attachment A provides detailed information for each of the City's investments as of the quarter ended June 30, 2009. Investments are categorized into one of four groups:

*Fixed Rate Investments:* Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also included in this group. Fixed Rate Investments, consistent with the City's Investment Policy, are generally held to maturity and not sold in the open market.

*Pooled Investments:* Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

*Unrestricted Financial Institution Investments:* Unrestricted operating account monies available in demand accounts for accounts payable and payroll. Certificates of deposit and money market accounts are also included with this group.

*Restricted Financial Institution Investments:* Restricted demand accounts maintained for the payment of obligations for designated city programs.

*Auburn Urban Development Authority Bond Proceeds:* All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and are invested in the CDARS Certificate of Deposit Program, which is 100% FDIC insured.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio yield as of June 30, 2009 is 1.98%. The effective yield is relatively unchanged when compared to the yield reported for quarter ended March 31, 2009 (2.00%). The decrease in investment yield can be attributed to decreasing interest rates in the overall market coupled with the placement of maturing investments into lower-yielding investments. Since July 2007, the Federal Open Market Committee (FOMC) has lowered interest rates by 5.75% in an effort to mitigate the impacts of the housing and credit crises; and in response to the current economic recessionary climate. Since the FOMC began reducing interest rates in response to economic issues, the average yield on the benchmark 2-Year U.S. Treasury Note has decreased approximately 400 basis points (4.00%).

During the quarter ended June 30, 2009, the City realized \$50,877 in investment earnings. In addition to the investment earnings, the City experienced a \$43,306 unrealized gain in portfolio market value. Unrealized market gains and losses, which are required to be amortized into the portfolio value, fluctuate from month-to-month in response to overall market conditions.

As discussed in previous investment reports, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond as of June 30, 2009 was \$18,437. The unrealized loss of \$106,563 has been fully amortized as a component of investments earnings.

In response the bankruptcy action taken by Lehman, the City has filed the necessary proof of claim with the United States Bankruptcy Court – Southern District of New York. Also, the City has entered into an agreement with a professional legal services firm to assist with the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. Finally, the City continues to participate with a working group of more than 80 cities, counties and special districts with combined Lehman exposure of approximately \$1.67 billion, seeking reimbursement of losses through the Federal Government's \$700 billion Troubled Assets Relief Program (TARP) signed into law on October 3, 2008. The working group continues to work towards engaging in hearings before the House Financial Services Committee and the Treasury Department to discuss the merits of using TARP funds to reimburse municipalities for losses stemming from the Lehman bankruptcy.

During the quarter ended June 30, 2009, the City's pooled investment portfolio increased by approximately \$1.2 million. All investments held at June 30, 2009 conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of June 30, 2009, funds on deposit and anticipated revenue collections for the period July 1, 2009 through December 31, 2009 are sufficient to meet all anticipated City expenditures during the same period.

**PORTFOLIO INVESTMENT EARNINGS**

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2008-09 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<b><i>Quarter Ending 06/30/09</i></b>			
Budget	3.00%	\$ 80,000	\$ 296,300
Actual (1)	3.09%	<u>49,747</u>	<u>257,393</u>
Variance		<u>(\$ 30,253)</u>	<u>(\$ 38,907)</u>

*(1) Includes amortization of unrealized market value loss*

**Alternatives Available to Council; Implications of Alternatives**

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

**Fiscal Impact**

The current year-to-date yield on the City's portfolio of investments is 3.09%. An average yield of 3.00% was forecasted in the City's adopted budget for Fiscal Year 2008-09. Attainment of interest revenues consistent with forecasted yields is directly contingent on average cash balances held in citywide funds.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

**City of Auburn  
Portfolio Analysis  
Quarter Ending June 30, 2009**

**Attachment A**

6/30/2009

	<u>Market Value</u>	<u>Current Yield</u>	<u>Dollar Weighted Days to Maturity</u>
<b><u>Fixed Rate Investments</u></b>			
US Government Bonds	\$ 2,525,625	3.16%	1,599
Corporate Notes	386,514	5.17%	1,018
Negotiable Certificates of Deposit	500,845	3.81%	482
Subtotal:	<u>\$ 3,412,984</u>		
Dollar-Weighted Average Yield:			<u>3.48%</u>
Dollar Weighted Days to Maturity:			<u>1,370</u>

**Pooled Investments**

State of California LAIF	\$ 41,498	1.51%	1
Placer County Investment Pool	2,105,898	2.70%	1
Subtotal:	<u>\$ 2,147,396</u>		
Dollar-Weighted Average Yield:			<u>2.68%</u>
Dollar Weighted Days to Maturity:			<u>1</u>

**Unrestricted Financial Institution Investments**

Wells Fargo Bank - Commercial Checking	\$ 3,129,178	0.01%	1
Wells Fargo Bank - Payroll Checking	106,839	0.01%	1
Citizens Bank - CDARS Program	500,041	1.92%	44
Citizens Bank - CDARS Program	500,000	2.22%	226
Community First Bank - Cert of Deposit	500,000	2.27%	474
UMPQUA Bank Money Market	515,145	1.54%	1
ML Stern Securities (Money Markets)	14,927	0.15%	1
	<u>\$ 5,266,130</u>		
Dollar-Weighted Average Yield:			<u>0.77%</u>
Dollar Weighted Days to Maturity:			<u>71</u>

City of Auburn  
Portfolio Analysis  
Quarter Ending June 30, 2009

Attachment A

6/30/2009

	<u>Market Value</u>	<u>Current Yield</u>	<u>Dollar Weighted Days to Maturity</u>
<b><u>Restricted Financial Institution Investments</u></b>			
Bank of America - Chiropractic Checking	\$ 4,964	0.00%	1
Bank of America - Vision Checking	3,373	0.00%	1
Bank of America - Dental Checking	9,321	0.00%	1
Bank of America - Landfill Closure Account	122,090	0.20%	1
Placer Sierra Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 155,789</u>		

Dollar-Weighted Average Yield: 0.16%  
Dollar Weighted Days to Maturity: 1

Unrestricted Investment Portfolio Valuation	\$ 10,826,510	2.00%	467
Restricted Investment Portfolio Valuation	\$ 155,789	0.16%	1
Total Pooled Investments Portfolio Valuation	\$ 10,982,299	1.98%	460
Total AUDA Bond Proceeds Account	\$ 4,701,907	2.41%	321

**City of Auburn  
Bond Maturity - Detail  
Quarter Ending June 30, 2009**

**Attachment A**

6/30/2009

	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
<b><u>US Agency Bonds</u></b>			
Federal National Mortgage Assn (\$500K)	528,750	3.90%	5/28/2013
Federal Farm Credit Bank (\$500K)	503,905	2.98%	2/25/2013
Federal Farm Credit Bank (\$500K)	497,815	2.91%	4/7/2014
Federal Farm Credit Bank (\$500K)	497,500	2.96%	4/7/2014
Federal Farm Credit Bank (\$500K)	497,655	3.01%	4/28/2014
<b>Subtotal:</b>	<b>\$ 2,525,625</b>		
		<b>Dollar-Weighted Average Yield:</b>	<b>3.16%</b>
		<b>Dollar Weighted Days to Maturity:</b>	<b>1,599</b>

**Corporate Notes**

HSBC Finance Corp (\$125K)	125,844	5.21%	1/14/2011
Lehman Brothers Holdings (\$125K)	18,437	0.01%	1/18/2012
Citigroup, Inc (\$125K)	120,570	5.49%	10/17/2012
Merrill Lynch (\$125K)	121,663	5.60%	2/5/2013
<b>Subtotal:</b>	<b>\$ 386,514</b>		
		<b>Dollar-Weighted Average Yield:</b>	<b>5.17%</b>
		<b>Dollar Weighted Days to Maturity:</b>	<b>1,018</b>

**Negotiable Certificates of Deposit**

First Regional Bank (\$98K)	98,977	3.56%	11/30/2009
Washington Mutual Bank (\$98K)	100,034	3.67%	5/28/2010
Discover Bank (\$98K)	100,628	3.90%	11/29/2010
Capmark Bank (\$98K)	100,603	3.95%	5/31/2011
Provident Bank (\$98K)	100,603	3.95%	5/31/2011
<b>Subtotal:</b>	<b>\$ 500,845</b>		
		<b>Dollar-Weighted Average Yield:</b>	<b>3.81%</b>
		<b>Dollar Weighted Days to Maturity:</b>	<b>482</b>

<b>UBOC Total Valuation:</b>	<b>\$ 3,412,984</b>	<b>3.48%</b>	<b>1,370</b>
<b>Cost Basis:</b>	<b>\$ 3,489,285</b>		
<b>Net Unrealized Gain:</b>	<b>\$ (76,301)</b>		



CITY OF AUBURN  
TREASURY INVESTMENT POOL  
QUARTERLY COMPARISONS

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 6/30/09</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 3/31/09</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 12/31/08</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 41,498	1.51%	\$ 41,304	1.91%	\$ 41,042	2.77%
Placer County Treasury Investment	2,105,898	2.70%	2,092,554	3.08%	2,076,409	3.33%
US Gov't/Agency Bonds (held by UBOC)	2,525,625	3.16%	1,536,250	3.67%	3,037,300	3.96%
Negotiable Certs. of Deposit (held by UBOC)	500,845	3.81%	501,189	3.80%	496,220	3.84%
Corporate Notes (held by UBOC)	386,514	5.17%	335,740	5.96%	373,686	5.35%
ML Stern & Piper Jaffray	14,927	0.15%	14,927	0.15%	14,926	1.33%
Citizens Bank (CDARS Program)	1,000,041	2.13%	1,000,041	2.13%	-	0.00%
Wells Fargo Bank (Checking and Payroll)	3,236,017	0.01%	3,588,385	0.10%	1,063,621	0.45%
Bank of America (Landfill Trust Account)	122,090	0.20%	112,731	0.30%	112,731	0.30%
Bank of America (Vision Account)	3,373	0.00%	3,438	0.00%	3,494	0.00%
Bank of America (Dental Account)	9,321	0.00%	9,256	0.00%	9,405	0.00%
UMPQUA Bank (Money Market Demand)	515,145	1.54%	513,048	2.54%	510,473	2.54%
Commercial Paper (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Community First Bank (Cert. of Deposit)	500,000	2.27%	-	0.00%	-	0.00%
Granite Community Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	4,964	0.00%	5,027	0.00%	5,086	0.00%
<b>Totals</b>	<b>\$ 10,982,299</b>	<b>Overall Yield = 1.98%</b>	<b>\$ 9,769,931</b>	<b>Overall Yield = 2.00%</b>	<b>\$ 7,760,434</b>	<b>Overall Yield = 3.20%</b>
<b>AUDA Bond Proceeds Account</b>						
Reliance Trust Company (CDARS Program)	\$ 4,701,907	2.41%	\$ 4,621,211	3.43%	\$ 4,602,133	3.43%
<b>Summary of Investments</b>	<b>6/30/2009</b>		<b>3/31/2009</b>		<b>12/31/2008</b>	
State Pool	0.3%	\$ 41,498	0.3%	\$ 41,304	0.3%	\$ 41,042
County Pool	13.4%	2,105,898	14.5%	2,092,554	16.8%	2,076,409
Corporate Bonds	2.5%	386,514	2.3%	335,740	3.0%	373,686
U.S. Agencies	16.1%	2,525,625	10.7%	1,536,250	24.6%	3,037,300
Negotiable Certificate of Deposit	3.2%	500,845	3.5%	501,189	4.0%	496,220
Commercial Paper	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	34.6%	5,421,919	36.6%	5,262,894	14.0%	1,735,777
AUDA Bond Proceeds / Debt Svc Reserve	30.0%	4,701,907	32.1%	4,621,211	37.2%	4,602,133
<b>Investment Total</b>	<b>100.0%</b>	<b>\$ 15,684,206</b>	<b>100.0%</b>	<b>\$ 14,391,142</b>	<b>100.0%</b>	<b>\$ 12,362,567</b>

CITY OF AUBURN  
TREASURY INVESTMENT POOL  
QUARTERLY COMPARISONS

## Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 09/30/08</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 06/30/08</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 03/31/08</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 40,757	2.77%	\$ 40,446	3.11%	\$ 40,031	4.18%
Placer County Treasury Investment	2,056,926	4.14%	2,036,193	4.05%	30,096	4.36%
US Gov't/Agency Bonds (held by UBOC)	4,481,230	4.03%	4,980,580	4.21%	3,517,970	4.36%
Negotiable Certs. of Deposit (held by UBOC)	484,357	3.94%	483,504	3.94%	-	0.00%
Corporate Notes (held by UBOC)	362,325	5.52%	488,811	5.87%	499,058	5.67%
ML Stern & Piper Jaffray	14,902	2.66%	14,848	0.87%	14,810	1.61%
Citizens Bank (CDARS Program)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (Checking and Payroll)	1,319,013	1.80%	2,122,606	1.22%	4,081,156	1.90%
Bank of America (Landfill Trust Account)	128,786	0.30%	94,309	0.30%	62,525	0.30%
Bank of America (Vision Account)	3,572	0.00%	3,629	0.00%	3,687	0.00%
Bank of America (Dental Account)	9,425	0.00%	9,505	0.00%	9,545	0.00%
UNPQUA Bank (Money Market Demand)	1,054,972	2.90%	1,047,339	3.06%	1,038,832	4.01%
Commercial Paper (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Community First Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Granite Community Bank (Cert. of Deposit)	-	0.00%	561,138	3.75%	555,859	3.75%
Wells Fargo Bank (AUBESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	5,148	0.00%	5,205	0.00%	5,260	0.00%
<b>Totals</b>	<b>\$ 9,977,454</b>	<b>Overall Yield = 3.62%</b>	<b>\$ 11,904,154</b>	<b>Overall Yield = 3.53%</b>	<b>\$ 9,874,870</b>	<b>Overall Yield = 3.29%</b>
<b>AUDA Bond Proceeds Account</b>						
Reliance Trust Company (CDARS Program)	N/A		N/A		N/A	
<b>Summary of Investments</b>	<b>9/30/2008</b>		<b>6/30/2008</b>		<b>3/31/2008</b>	
State Pool	0.4%	\$ 40,757	0.3%	\$ 40,446	0.4%	\$ 40,031
County Pool	20.6%	2,056,926	17.1%	2,036,193	0.3%	30,096
Corporate Bonds	3.6%	362,325	4.1%	488,811	5.1%	499,058
U.S. Agencies	44.9%	4,481,230	41.8%	4,980,580	35.6%	3,517,970
Negotiable Certificate of Deposit	4.9%	484,357	4.1%	483,504	0.0%	-
Commercial Paper	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	25.6%	2,551,859	32.5%	3,874,620	58.6%	5,787,715
AUDA Bond Proceeds / Debt Svc Reserve	0.0%	N/A	0.0%	N/A	0.0%	N/A
<b>Investment Total</b>	<b>100.0%</b>	<b>\$ 9,977,454</b>	<b>100.0%</b>	<b>\$ 11,904,154</b>	<b>100.0%</b>	<b>\$ 9,874,870</b>

## CITY OF AUBURN

TREASURY INVESTMENT POOL  
QUARTERLY COMPARISONS

## Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 12/31/07</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 09/30/07</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 06/30/07</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 39,539	4.80%	\$ 39,026	5.24%	\$ 38,524	5.25%
Placer County Treasury Investment	29,767	4.68%	29,288	5.14%	29,043	5.13%
US Gov't/Agency Bonds (held by UBOC)	3,496,410	4.00%	7,333,622	4.73%	6,882,163	4.69%
Negotiable Certs. of Deposit (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Corporate Notes (held by UBOC)	499,605	4.00%	498,175	4.01%	495,755	4.03%
ML Stern & Piper Jaffray	14,747	2.48%	14,651	3.00%	14,548	2.82%
Citizens Bank (CDARS Program)	-	0.00%	-	0.00%	-	0.00%
Wells Fargo Bank (Checking and Payroll)	1,268,453	3.57%	(209,768)	3.98%	1,038,324	3.88%
Bank of America (Landfill Trust Account)	58,214	0.30%	34,004	0.30%	99,083	0.30%
Bank of America (Vision Account)	3,738	0.00%	3,788	0.00%	3,855	0.00%
Bank of America (Dental Account)	9,648	0.00%	9,668	0.00%	9,768	0.00%
UMPQUA Bank (Money Market Demand)	32,873	5.48%	32,441	5.48%	304,013	5.48%
Commercial Paper (held by UBOC)	-	0.00%	-	0.00%	1,214,322	5.33%
Community First Bank (Cert. of Deposit)	-	0.00%	-	0.00%	-	0.00%
Granite Community Bank (Cert. of Deposit)	549,981	5.26%	542,816	5.26%	535,427	5.65%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	5,310	0.00%	5,354	0.00%	5,394	0.00%
<b>Totals</b>	<b>\$ 6,024,326</b>	<b>Overall Yield = 3.98%</b>	<b>\$ 8,349,106</b>	<b>Overall Yield = 4.67%</b>	<b>\$ 10,686,260</b>	<b>Overall Yield = 4.67%</b>
<b>AUDA Bond Proceeds Account</b>						
Reliance Trust Company (CDARS Program)	N/A		N/A		N/A	
<b>Summary of Investments</b>	<b>12/31/2007</b>		<b>9/30/2007</b>		<b>6/30/2007</b>	
State Pool	0.7%	\$ 39,539	0.5%	\$ 39,026	0.4%	\$ 38,524
County Pool	0.5%	29,767	0.4%	29,288	0.3%	29,043
Corporate Bonds	8.3%	499,605	6.0%	498,175	4.6%	495,755
U.S. Agencies	58.0%	3,496,410	87.8%	7,333,622	64.4%	6,882,163
Negotiable Certificate of Deposit	0.0%	-	0.0%	-	0.0%	-
Commercial Paper	0.0%	-	0.0%	-	11.4%	1,214,322
Financial Institutions	32.5%	1,959,005	5.4%	448,995	19.0%	2,026,453
AUDA Bond Proceeds / Debt Svc Reserve	0.0%	N/A	0.0%	N/A	0.0%	N/A
<b>Investment Total</b>	<b>100.0%</b>	<b>\$ 6,024,326</b>	<b>100.0%</b>	<b>\$ 8,349,106</b>	<b>100.0%</b>	<b>\$ 10,686,260</b>

